

Stock is convertible into 2,000 shares of Common Stock at the option of the holder. The net proceeds received by the Company were \$8,562,500, net of offering costs of \$717,500.

As part of the private placement, the investors were issued an aggregate total of 23,200,000 Series A Warrants to purchase shares of Common Stock at an exercise price of \$0.50 per share. The warrants vested upon issuance and expire after five years. In addition, the investors were issued an aggregate total of 13,920,000 Series B Warrants to purchase shares of Common Stock at an exercise price of \$1.50 per share. The warrants vested upon issuance and expire after one year. For each of the warrants, the holder will be able to exercise the warrant on a cashless basis, if at the time of exercise, a registration statement covering the shares of our Common Stock underlying such warrants is not effective.

The net proceeds from the private placement, following the payment of offering-related expenses, are being used by us for working capital and other general corporate purposes.

At the closing of the private placement, we paid Newport Coast Securities, Inc., the placement agent for the private placement, and Oppenheimer & Co. Inc., the former placement agent, cash compensation based on the gross proceeds of the private placement and 696,000 Series A Warrants and 417,600 Series B Warrants. The terms of these warrants are identical to the warrants issued to investors in the private placement.

We have agreed, pursuant to the terms of a registration rights agreement with the investors in the private placement, to (i) file a registration statement with respect to the resale of the shares of our Common Stock sold to the investors and shares of our Common Stock issuable upon conversion of the Series A Convertible Preferred Stock and exercise of the warrants with the SEC on or before April 14, 2014; (ii) use our best efforts to have the registration statement declared effective by the SEC as soon as possible after the initial filing, and in any event no later than June 17, 2014 (90 days after the closing of the private placement), and (iii) keep this the registration statement effective until all registrable securities may be sold under Rule 144 under the Securities Act. If we are unable to comply with any of the above covenants, we will be required to pay liquidated damages to the investors in the amount of 3.0% of the investors' purchase price per month during such non-compliance (capped at a maximum of 10% of the purchase price), with such liquidated damages payable in cash. We also agreed to certain restrictions on our ability to sell our equity securities until 180 days after the closing date of the private placement.

The shares of our Common Stock, Series A Convertible Preferred Stock and warrants issued in the private placement were exempt from registration under Section 4(a)(2) of the Securities Act as a sale by an issuer not involving a public offering or under Regulation D promulgated pursuant to the Securities Act. None of the shares of Common Stock, Series A Convertible Preferred Stock or warrants, or shares of our Common Stock underlying such warrants or the conversion of our Series A Convertible Preferred Stock, were registered under the Securities Act, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(a)(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempts transactions by an issuer not involving any public offering. Such securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements and certificates evidencing such shares contain a legend stating the same.

Selling Stockholder Table

The shares of Common Stock being offered by the selling stockholders are those issued to the selling stockholders and those issuable to the selling stockholders upon conversion of the Series A Convertible Preferred Stock and/or exercise of the warrants. For additional information regarding the issuance of the Common Stock, Series A Convertible Preferred Stock and the warrants, see "March 2014 Private Placement" above. We are registering the shares of Common Stock in order to permit the selling stockholders to offer the shares for resale from time to time. Except for the ownership of the Common Stock, the Series A Convertible Preferred Stock and the warrants issued pursuant to the Securities Purchase Agreement, the selling stockholders have not had any material relationship with us within the past three years with the exception of the following: (i) Joseph Chiarelli serves as our Chief Executive Officer and a director, (ii) Kevin Richardson, who is the Chairman of our board of directors, is the trustee for the Zachary G. Richardson UTMA and the Eleanor G. Richardson UTMA, and (iii) Michael N. Nemelka is the brother of a member of our board of directors.

The table below lists the selling stockholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of Common Stock held by each of the selling stockholders. The second column lists the number of shares of

Common Stock beneficially owned by the selling stockholders, based on their respective ownership of shares of Common Stock, Series A Convertible Preferred Stock and warrants, as of April 8, 2014, assuming exercise of the warrants and conversion of the Series A Convertible Preferred Stock held by each such selling stockholder on that date but taking account of any limitations on exercise set forth therein.

The third column lists the shares of Common Stock being offered by this prospectus by the selling stockholders and does not take into account any limitations on conversion of the Series A Convertible Preferred Stock or the exercise of the warrants set forth therein.

In accordance with the terms of a registration rights agreement with the holders of the Common Stock, the Series A Convertible Preferred Stock and the warrants, this prospectus generally covers the resale of the sum of (i) the shares of Common Stock issued to the selling stockholders, (ii) the maximum number of shares of common stock issuable upon exercise of the warrants determined as if the outstanding warrants were exercised in full (without regard to any limitations on exercise contained therein), and (iii) the maximum number of shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock determined as if the outstanding shares of Series A Convertible Preferred Stock were converted in full (without regard to any limitations on conversion contained therein) as of the trading day immediately preceding the date this registration statement was initially filed with the SEC. The fourth column assumes the sale of all of the shares offered by the selling stockholders pursuant to this prospectus.

Under the terms of the warrants and the Series A Convertible Preferred Stock, a selling stockholder may not exercise the warrants or convert shares of Series A Convertible Preferred Stock to the extent (but only to the extent) such selling stockholder or any of its affiliates would beneficially own a number of shares of our common stock which would exceed 9.99% (as applicable). The number of shares in the second column reflects these limitations. The selling stockholders may sell all, some or none of their shares in this offering. See “Plan of Distribution.”

Name of Selling Stockholder (1)	Number of Shares of Common Stock Owned Prior to Offering (2)	Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus (3)	Number of Shares of Common Stock Owned After Offering (4)	Percentage Owned After Offering	
RA Capital Healthcare Fund, L.P. (5)	3,926,976	42,840,000	-	*	
Blackwell Partners, LLC	747,996	8,160,000	-	*	
Cranshire Capital Master Fund Ltd	2,072,727	1,800,000	272,727	*	
Brenda Hall	998,235	840,000	158,235	*	
Frederick Wahl	600,000	600,000	-	*	
John S. Irish	600,000	600,000	-	*	
Michael N. Nemelka	1,296,886	300,000	996,886	1	%
Joseph Chiarelli	1,073,334	240,000	833,334	1	%
Zachary G. Richardson UTMA	277,045	150,000	127,045	*	
Eleanor G. Richardson UTMA	277,045	150,000	127,045	*	
Newport Coast Securities, Inc. (6)	229,400	229,400	-	*	
Robert Ainbinder	111,733	111,733	-	*	
John Cassels	114,733	114,733	-	*	
Bradley Richmond	114,734	114,734	-	*	
George Johnson	27,900	27,900	-	*	
Christopher Wynne	5,100	5,100	-	*	
Oppenheimer & Co., Inc.	510,000	510,000	-	*	

* Represents beneficial ownership of less than 1%.

(1) Unless otherwise noted, this table is based on information supplied to us by the selling stockholders and certain records of the Company. The share numbers include Common Stock and shares of Common Stock issuable pursuant to the conversion of the Series A Convertible Preferred Stock and exercise of outstanding warrants held by the selling stockholders. The number of shares beneficially owned by a person includes shares of Common Stock underlying warrants, stock options and other derivative securities to acquire our Common Stock held by that person that are currently exercisable or convertible within 60 days after April 8, 2014.

(2) The number of shares of Common Stock beneficially owned by the selling stockholders, based on their respective ownership of shares of Common Stock, Series A Convertible Preferred Stock and warrants, as of April 8, 2014, assuming exercise of the warrants and conversion of the Series A Convertible Preferred Stock held by each such selling stockholder on that date but taking account of any limitations on exercise. Under the terms of the warrants and the Series A Convertible Preferred Stock, a selling stockholder may not exercise the warrants or convert shares of Series A Convertible Preferred Stock to the extent (but only to the extent) such selling stockholder or any of its affiliates would beneficially own a number of shares of our common stock which would exceed 9.99% (as applicable). The number of shares in this column reflects these limitations.

(3) The shares of Common Stock being offered by this prospectus by the selling stockholders without taking into account any limitations on conversion of the Series A Convertible Preferred Stock or the exercise of the warrants as noted in (2) above.

(4) Assumes the sale of all of the shares offered by the selling stockholders pursuant to this prospectus. We do not know when or in what amounts a selling stockholder may offer shares for sale. The selling stockholders might not sell any or all of the shares offered by this prospectus. Because the selling stockholders may offer all or some of the shares pursuant to this offering and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, we cannot estimate the number of the shares that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by this prospectus will be held by the selling stockholders.

(5) RA Capital Management LLC serves as the sole partner, for which Peter Kolchinsky serves as the manager.

(6) Donald A. Wojnowski, Jr. is the Chief Executive Officer of Newport Coast Securities, Inc. and has voting and investment power over the securities owned by it.

PLAN OF DISTRIBUTION

We are registering the shares of Common Stock issued to the selling stockholders and the shares of Common Stock issuable upon exercise of the warrants and conversion of the Series A Convertible Preferred Stock to permit the resale of these shares of Common Stock by the selling stockholders from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of Common Stock, except cash for the warrant exercise price upon exercise of the warrants, which if such warrants are exercised in full for cash, would be approximately \$33,454,400. Proceeds, if any, received from the exercise of such warrants, would be used for working capital purposes. We will bear all fees and expenses incident to our obligation to register the shares of Common Stock.

The selling stockholders may sell all or a portion of the shares of Common Stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of Common Stock are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of Common Stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;

in the over-the-counter market;

in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales made after the date the Registration Statement is declared effective by the SEC;

broker-dealers may agree with a selling security holder to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares of Common Stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling stockholders may transfer the shares of Common Stock by other means not described in this prospectus. If the selling stockholders effect such transactions by selling shares of Common Stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of Common Stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of Common Stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of Common Stock short and deliver shares of Common Stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholders may also loan or pledge shares of Common Stock to broker-dealers that in turn may sell such shares.

The selling stockholders may pledge or grant a security interest in some or all of the warrants or shares of Common Stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer and donate the shares of Common Stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling stockholders and any broker-dealer participating in the distribution of the shares of Common Stock may be deemed to be “underwriters” within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of Common Stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of Common Stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers. Each selling stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the shares of common stock in violation of any applicable securities laws. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

Under the securities laws of some states, the shares of Common Stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of Common Stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of Common Stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of Common Stock. All of the foregoing may affect the marketability of the shares of Common Stock and the ability of any person or entity to engage in market-making activities with respect to the shares of Common Stock.

We will pay all expenses of the registration of the shares of Common Stock pursuant to the registration rights agreement, estimated to be \$45,000 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or “blue sky” laws; provided, however, a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the selling stockholders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for us to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect or (ii) all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect.

Once sold under the registration statement, of which this prospectus forms a part, the shares of Common Stock will be freely tradable in the hands of persons other than our affiliates.

DESCRIPTION OF SECURITIES TO BE REGISTERED

Our authorized capital stock consists of 155,000,000 shares, of which 150,000,000 shares are designated as Common Stock and 5,000,000 shares are designated as preferred stock. As of April 8, 2014, there were issued and outstanding:

46,966,519 shares of Common Stock,

6,175 shares of Series A Convertible Preferred Stock, convertible into 12,350,000 shares of Common Stock,

warrants to purchase 52,776,792 shares of Common Stock at a weighted average exercise price of \$1.29 per share, and

stock options to purchase 8,296,830 shares of Common Stock at a weighted average exercise price of \$1.17 per share.

The following summary of the material provisions of our Common Stock, Series A Convertible Preferred Stock, and warrants is qualified by reference to the provisions of our articles of incorporation and bylaws and the forms of warrant included or incorporated by reference as exhibits to the registration statement of which this prospectus is a part.

Common Stock

All shares of our Common Stock have equal voting rights and, when validly issued and outstanding, have one vote per share in all matters to be voted upon by the stockholders. Cumulative voting in the election of directors is not allowed, which means that the holders of more than 50% of the outstanding shares can elect all the directors if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any directors. The affirmative vote of a plurality of the shares of Common Stock voted at a stockholders meeting where a quorum is present is required to elect directors and to take other corporate actions. Holders of our Common Stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of legally available funds. However, the current policy of our board of directors is to retain earnings, if any, for the operation and expansion of the Company. Upon liquidation, dissolution or winding-up, the holders of our Common Stock are entitled to share ratably in all of our assets which are legally available for distribution, after payment of or provision for all liabilities and the liquidation preference of any outstanding preferred stock. The holders of our Common Stock have no preemptive, subscription, redemption or conversion rights. All issued and outstanding shares of Common Stock are, and the Common Stock reserved for issuance upon exercise of our stock options and warrants will be, when issued, fully-paid and non-assessable.

Preferred Stock

Our articles of incorporation authorize the issuance of up to 5,000,000 shares of "blank check" preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. On March 14, 2014, we filed a Certificate of Designation of Preferences, Rights and Limitations for Series A Convertible Preferred Stock of the Company (the "Certificate of Designation") with the Nevada Secretary of State. The Certificate of Designation amends our Articles of Incorporation to designate 6,175 shares of our preferred stock, par value \$0.001 per share, as Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock has a stated value of \$1,000 per share. On March 17, 2014, in connection with a private placement, we sold 6,175 shares of Series A Convertible Preferred Stock. For a more detailed discussion regarding the private placement, please see "Selling Stockholders - March 2014 Private Placement" in this prospectus.

Under the Certificate of Designation, holders of Series A Convertible Preferred Stock are entitled to receive dividends equal (on an as-if-converted-to-Common-Stock basis) to and in the same form as dividends (other than dividends in the form of Common Stock) actually paid on shares of the Common Stock when, as and if such dividends are paid. Such holders will participate on an equal basis per-share with holders of our Common Stock in any distribution upon winding up, dissolution, or liquidation. Holders of Series A Convertible Preferred Stock are entitled to convert each share of Series A Preferred Stock into 2,000 shares of Common Stock, provided that after giving effect to such conversion, such holder, together with its affiliates, shall not beneficially own in excess of 9.99% of the number of shares of Common Stock outstanding (the “Beneficial Ownership Limitation”). Holders of the Series A Convertible Preferred Stock are entitled to vote on all matters affecting the holders of the Common Stock on an “as converted” basis, provided that such holder shall only vote such shares of Series A Convertible Preferred Stock eligible for conversion without exceeding the Beneficial Ownership Limitation.

Warrants

The following is a brief summary of material provisions of the warrants issued in the March 2014 private placement.

Exercise Price and Terms. The 23,896,000 Series A Warrants issued and outstanding entitle the holder thereof to purchase at any time until March 17, 2019, at a price of \$0.50 per share, subject to certain adjustments referred to below, up to 23,896,000 shares of our Common Stock. The 14,337,600 Series B Warrants issued and outstanding entitle the holders thereof to purchase at any time until March 17, 2015, at a price of \$1.50 per share, subject to certain adjustments referred to below, up to 14,337,600 shares of our Common Stock. The holder of any warrant may exercise such warrant by surrendering the warrant to us, with the notice of exercise properly completed and executed, together with payment of the exercise price. The warrants may also be exercised on a cashless-exercise basis by investors if, at the time of exercise, a resale registration statement covering the shares underlying the warrants is not effective. The warrants may be exercised at any time in whole or in part at the applicable exercise price until expiration of the warrants. No fractional shares will be issued upon the exercise of the warrants. Any exercise of the warrants shall be subject to the Beneficial Ownership Limitation.

Adjustments. The exercise price and the number of shares of Common Stock purchasable upon the exercise of the warrants are subject to adjustment upon the occurrence of certain events, including stock dividends, stock splits, combinations or reclassifications of the Common Stock. Additionally, an adjustment would be made in the case of a reclassification or exchange of Common Stock, consolidation or merger of our Company with or into another corporation (other than a consolidation or merger in which we are the surviving corporation) or sale of all or substantially all of our assets in order to enable holders of the warrants to acquire the kind and number of shares of stock or other securities or property receivable in such event by a holder of the number of shares of Common Stock that might otherwise have been purchased upon the exercise of the warrant. No adjustment to the number of shares and exercise price of the shares subject to the warrants will be made for dividends (other than stock dividends), if any, paid on our Common Stock.

Transfer, Exchange and Exercise. The warrants may be presented to us for exchange or exercise at any time on or prior to their expiration date, at which time the warrants become wholly void and of no value. Prior to any transfer of the warrants the holder must notify us of the same and, if subsequently requested, provide a legal opinion regarding the transfer to us.

Warrantholder Not a Stockholder. The warrants do not confer upon holders any voting, dividend or other rights as a shareholder of our Company.

Trading Information

Our shares of Common Stock are currently quoted in the over-the-counter market on the OTC Bulletin Board. Our preferred stock and warrants will not be registered or listed for trading.

Transfer Agent

The transfer agent and registrar for our Common Stock and preferred stock is Action Stock Transfer Corp., 7069 S. Highland Drive, Suite 300, Salt Lake City, Utah 84121. We serve as warrant agent for the warrants.

SHARES AVAILABLE FOR FUTURE SALE

As of April 8, 2014, we had 46,966,519 shares of Common Stock outstanding, not including shares issuable upon the conversion of the Series A Convertible Preferred Stock, or exercise of outstanding warrants, stock options and other convertible securities. All shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless they are purchased by our “affiliates,” as that term is defined in Rule 144 promulgated under the Securities Act.

The outstanding shares of our Common Stock not included in this prospectus will be available for sale in the public market as follows:

Public Float

Of our outstanding shares, 18,863,859 shares are beneficially owned by executive officers, directors and affiliates of the Company. The remaining 28,102,660 shares constitute our public float which, based on the last sale price of our Common Stock reported on the OTC Bulletin Board on April 8, 2014, equaled approximately \$17,985,702.

Rule 144

In general, under Rule 144, as currently in effect, a person who has beneficially owned shares of our Common Stock for at least six months, including the holding period of prior owners other than affiliates, is entitled to sell his or her shares without any volume limitations; an affiliate, however, can sell such number of shares within any three-month period as does not exceed the greater of:

1% of the number of shares of our Common Stock then outstanding, which equaled 469,665 shares as of April 8, 2014, or

the average weekly trading volume of our Common Stock, assuming our shares are then traded on a national securities exchange, during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale.

Sales under Rule 144 are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Smith, Gambrell & Russell, LLP, Atlanta, Georgia.

EXPERTS

The consolidated financial statements as of December 31, 2013 and 2012, and for the years then ended, included in this prospectus and in the registration statement have been so included in reliance of the reports of BDO USA, LLP, an independent registered public accounting firm, appearing elsewhere herein and in the registration statement, given on the authority of said firm as experts in auditing and accounting.

INTEREST OF NAMED EXPERTS AND COUNSEL

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the Common Stock was employed on a contingency basis, or had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

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SANUWAVE Health, Inc. and Subsidiaries

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

SANUWAVE Health, Inc. and Subsidiaries

Alpharetta, Georgia

We have audited the accompanying consolidated balance sheets of SANUWAVE Health, Inc. and Subsidiaries as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive loss, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SANUWAVE Health, Inc. and Subsidiaries at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Atlanta, Georgia

March 31, 2014

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 182,315	\$ 70,325
Accounts receivable - trade, net of allowance for doubtful accounts of \$43,282 in 2013 and \$44,124 in 2012	139,736	87,826
Inventory (Note 2)	246,006	292,665
Prepaid expenses	75,020	128,495
TOTAL CURRENT ASSETS	643,077	579,311
 PROPERTY AND EQUIPMENT , at cost, less accumulated depreciation (Note 3)	 13,267	 32,842
 OTHER ASSETS	 11,444	 11,358
 INTANGIBLE ASSETS , at cost, less accumulated amortization (Note 4)	 920,269	 1,227,025
TOTAL ASSETS	\$ 1,588,057	\$ 1,850,536
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 935,028	\$ 555,898
Accrued expenses (Note 5)	863,572	721,916
Accrued employee compensation	140,102	534,659
Convertible promissory note (Note 6)	147,775	-
Promissory notes (Note 7)	89,038	-
Subscriptions payable for Senior Secured Notes (Note 8)	-	438,516
Interest payable, related parties (Note 10)	163,729	81,864
Capital lease payable, current portion (Note 14)	3,951	4,933
Liabilities related to discontinued operations (Note 9)	-	655,061
TOTAL CURRENT LIABILITIES	2,343,195	2,992,847
 NON-CURRENT LIABILITIES		
Notes payable, related parties (Note 10)	5,372,743	5,372,743
Capital lease payable, non-current portion (Note 14)	-	3,951
TOTAL NON-CURRENT LIABILITIES	5,372,743	5,376,694
TOTAL LIABILITIES	7,715,938	8,369,541
 COMMITMENTS AND CONTINGENCIES (Note 14)	 -	 -
 STOCKHOLDERS' DEFICIT	 -	 -

PREFERRED STOCK, par value \$0.001, 5,000,000 shares authorized; no shares issued and outstanding (Note 12)

COMMON STOCK, par value \$0.001, 150,000,000 shares authorized; 37,984,182 and 21,007,536 issued and outstanding at December 31, 2013 and 2012, respectively (Note 12)	37,984	21,008
ADDITIONAL PAID-IN CAPITAL	76,037,490	64,357,193
ACCUMULATED OTHER COMPREHENSIVE INCOME	6,688	13,116
ACCUMULATED DEFICIT	(82,210,043)	(70,910,322)
TOTAL STOCKHOLDERS' DEFICIT	(6,127,881)	(6,519,005)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$1,588,057	\$1,850,536

The accompanying notes to consolidated financial

statements are an integral part of these statements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years Ended December 31, 2013 and 2012

	2013	2012
REVENUE	\$800,029	\$769,217
COST OF REVENUE	189,791	220,257
GROSS PROFIT	610,238	548,960
OPERATING EXPENSES		
Research and development	2,296,662	1,762,194
General and administrative	3,963,206	4,521,957
Depreciation	19,575	20,375
Amortization	306,756	306,757
TOTAL OPERATING EXPENSES	6,586,199	6,611,283
OPERATING LOSS	(5,975,961)	(6,062,323)
OTHER INCOME (EXPENSE)		
Loss on embedded conversion feature of Senior Secured Notes (Note 8)	(2,373,813)	-
Loss on extinguishment of Senior Secured Notes (Note 8)	(1,073,572)	-
Accretion of interest and interest expense on Senior Secured Notes (Note 8)	(2,178,390)	(8,516)
Interest expense, net	(360,273)	(323,227)
Gain on sale of fixed assets	7,500	-
Loss on foreign currency exchange	(273)	(7,428)
TOTAL OTHER INCOME (EXPENSE)	(5,978,821)	(339,171)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(11,954,782)	(6,401,494)
INCOME TAX EXPENSE	-	-
LOSS FROM CONTINUING OPERATIONS	(11,954,782)	(6,401,494)
DISCONTINUED OPERATIONS (Note 9)		
Gain on discontinued operations liabilities adjustment, net of tax	655,061	-
INCOME FROM DISCONTINUED OPERATIONS	655,061	-
NET LOSS	(11,299,721)	(6,401,494)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	(6,428)	2,650

TOTAL COMPREHENSIVE LOSS	\$(11,306,149) \$(6,398,844)	
LOSS PER SHARE:		
Loss from continuing operations - basic and diluted	\$(0.42)	\$(0.30)
Income from discontinued operations - basic and diluted	\$0.02	\$-
Net loss - basic and diluted	\$(0.40)	\$(0.30)
Weighted average shares outstanding - basic and diluted	28,132,134	20,915,869

The accompanying notes to consolidated financial

statements are an integral part of these statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

Years Ended December 31, 2013 and 2012

	Preferred Stock Number of Shares	Common Stock Number of Shares	Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Issued and Outstanding Par Value	Issued and Outstanding Par Value				
Balances as of December 31, 2011	- \$ -	20,907,536 \$20,908	\$62,940,977	\$(64,508,828)	\$ 10,466	\$(1,536,477)
Net loss	-	-	-	(6,401,494)	-	(6,401,494)
Shares issued under subscription agreement	- -	100,000 100.00	24,900	-	-	25,000
Stock-based compensation - options	- -	-	1,391,316	-	-	1,391,316
Foreign currency translation adjustment	- -	-	-	-	2,650	2,650
Balances as of December 31, 2012	- -	21,007,536 21,008	64,357,193	(70,910,322)	13,116	(6,519,005)
Net loss	- -	-	-	(11,299,721)	-	(11,299,721)
Shares issued in Senior Secured Notes conversion	- -	10,934,533 10,934	6,549,785	-	-	6,560,719
Warrants issued in Senior Secured Notes conversion	- -	-	1,073,572	-	-	1,073,572
Shares issued in Public Offering	- -	3,006,818 3,007	1,514,443	-	-	1,517,450
Shares issued in Private Placements	- -	1,043,646 1,043	625,145	-	-	626,188
Shares issued under subscription agreement	- -	300,000 300	74,700	-	-	75,000
	- -	1,583,315 1,584	1,012,683	-	-	1,014,267

Shares issued for
services

Shares issued for stock option exercise	-	-	108,334	108	37,809	-	-	37,917
Stock-based compensation - options	-	-	-	-	792,160	-	-	792,160
Foreign currency translation adjustment	-	-	-	-	-	-	(6,428)	(6,428)
Balances as of December 31, 2013	-	\$ -	37,984,182	\$37,984	\$76,037,490	\$(82,210,043)	\$ 6,688	\$(6,127,881)

The accompanying notes to consolidated financial
statements are an integral part of these statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(11,299,721)	\$(6,401,494)
Gain on discontinued operations liabilities adjustment	(655,061)	-
Loss from continuing operations	(11,954,782)	(6,401,494)
Adjustments to reconcile net loss from continuing operations to net cash used by operating activities		
Amortization	306,756	306,757
Depreciation	19,575	20,375
Change in allowance for doubtful accounts	(842)	(30,728)
Stock-based compensation - employees, directors and advisors	792,160	1,391,316
Stock issued for consulting services	1,014,267	-
Loss on embedded conversion feature of Senior Secured Notes	2,373,813	-
Accretion of interest and accrued interest on Senior Secured Notes	2,178,390	-
Loss on extinguishment of Senior Secured Notes	1,073,572	-
Gain on sale of property and equipment	(7,500)	-
Changes in assets - (increase)/decrease		
Accounts receivable - trade	(51,068)	24,467
Inventory	46,659	103,619
Prepaid expenses	53,475	34,480
Due from Pulse Veterinary Technologies, LLC	-	27,837
Other	(86)	(8,166)
Changes in liabilities - increase/(decrease)		
Accounts payable	379,130	(200,759)
Accrued employee compensation	(394,557)	(97,674)
Accrued expenses	141,656	531,333
Promissory notes - accrued interest	23,313	8,516
Interest payable	81,865	-
NET CASH USED BY OPERATING ACTIVITIES	(3,924,204)	(4,290,121)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property and equipment	7,500	-
Purchase of property and equipment	-	(2,011)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	7,500	(2,011)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subscriptions payable for Senior Secured Notes	1,570,000	430,000
Proceeds from Public Offering, net	1,517,450	-
Proceeds from Private Placements	626,188	-

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Proceeds from promissory notes	538,500	-
Proceeds from sale of capital stock - subscription agreement	75,000	25,000
Proceeds from employee stock option exercise	37,917	-
Payments of principal on promissory notes	(325,000)	-
Payments of principal on capital lease	(4,933)	(4,576)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,035,122	450,424
 EFFECT OF EXCHANGE RATES ON CASH	 (6,428)	 2,650
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 111,990	 (3,839,058)
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 70,325	 3,909,383
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$182,315	\$70,325
 SUPPLEMENTAL INFORMATION		
Cash paid for interest, related parties	\$242,904	\$324,768
Cash paid for capital lease interest	\$530	\$858

The accompanying notes to consolidated financial

statements are an integral part of these statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(1) Summary of significant accounting policies

Description of the business – SANUWAVE Health, Inc. and subsidiaries (the "Company") is a shockwave technology company using noninvasive, high energy, acoustic shockwaves for regenerative medicine and other applications. The Company's initial focus is regenerative medicine – utilizing noninvasive, acoustic shockwaves to solicit a biological response resulting in the body healing itself through the repair and regeneration of tissue, musculoskeletal and vascular structures. The Company's lead regenerative product in the United States is the demaPACE device for treating diabetic foot ulcers which is in a supplemental Phase III clinical study with possible FDA approval in 2015 subject to submission of satisfactory clinical study results.

The Company's portfolio of healthcare products and product candidates activate biologic signaling and angiogenic responses, including new vascularization and microcirculatory improvement, helping to restore the body's normal healing processes and regeneration. The Company intends to apply its Pulsed Acoustic Cellular Expression (PACE®) technology in wound healing, orthopedic, plastic/cosmetic and cardiac conditions. The Company is currently not marketing any commercial products in the United States. Revenue is from sales of the European Conformity Marking ("CE Mark") devices and accessories in Europe, Canada and Asia/Pacific.

Financial Condition – Since inception in 2005, the Company's operations have primarily been funded from the sale of capital stock and convertible debt securities. At December 31, 2013, the Company had cash and cash equivalents totaling \$182,315 and a net working capital deficit of \$1,700,118. Subsequent to year-end, on March 17, 2014, the Company completed a private offering of securities for an aggregate total purchase price of \$9,280,000 (see Note 19). In addition, the Company raised \$815,000 through the issuance of unsecured 18% convertible promissory notes in the first quarter of 2014, which by their terms, converted into equity at the same terms as the private offering on March 17, 2014.

The Company does not currently generate significant recurring revenue and will require additional capital in the second half of 2015 to commercialize the dermaPACE, assuming positive clinical study results and FDA approval. Although no assurances can be given, management of the Company believes that existing capital resources should enable the Company to fund operations for at least the next twelve months. Accordingly, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern.

The significant accounting policies followed by the Company are summarized below:

Foreign currency translation - The functional currencies of the Company's foreign operations are the local currencies. The financial statements of the Company's foreign subsidiary have been translated into United States dollars in accordance with ASC 830, *Foreign Currency Matters* (formerly SFAS No. 52, Foreign Currency Translation.) All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Income statement amounts have been translated using the average exchange rate for the year. Translation adjustments are reported in other comprehensive income in the consolidated statements of comprehensive loss and as cumulative translation adjustments as a separate component of accumulated other comprehensive income (loss) in the consolidated statements of stockholders' deficit.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(1) Summary of significant accounting policies (continued)

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Estimates – These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. Because a precise determination of assets and liabilities, and correspondingly revenue and expenses, depend on future events, the preparation of consolidated financial statements for any period necessarily involves the use of estimates and assumptions. Actual amounts may differ from these estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized herein. Significant estimates include the recording of allowances for doubtful accounts, estimated reserves for inventory, estimated useful life of property and equipment, accrued expenses, the determination of the valuation allowances for deferred taxes, estimated fair value of stock-based compensation and the estimated fair value of intangible assets.

Cash and cash equivalents - For purposes of the consolidated financial statements, liquid instruments with an original maturity of 90 days or less are considered cash and cash equivalents. The Company maintains its cash in bank accounts which may exceed federally insured limits.

Concentration of credit risk and limited suppliers - Management routinely assesses the financial strength of its customers and, as a consequence, believes accounts receivable are stated at the net realizable value and credit risk exposure is limited. Two distributors accounted for 28% and 22% of revenue for the year ended December 31, 2013, and 20% and 29% of revenue for the year ended December 31, 2012. The two distributors accounted for 10% and 11% of accounts receivable at December 31, 2013, and 6% and 35% of accounts receivable at December 31, 2012.

We depend on suppliers for product component materials and other components that are subject to stringent regulatory requirements. We currently purchase most of our product component materials from single suppliers and the loss of any of these suppliers could result in a disruption in our production. If this were to occur, it may be difficult to arrange a replacement supplier because certain of these materials may only be available from one or a limited number of sources. In addition, establishing additional or replacement suppliers for these materials may take a substantial period

of time, as certain of these suppliers must be approved by regulatory authorities.

Accounts receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings based on its assessment of the current status of individual accounts. Receivables are generally considered past due if greater than 60 days old. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts.

Inventory - Inventory consists of finished medical equipment and parts and is stated at the lower of cost or market, which is valued using the first in, first out (“FIFO”) method. Market is based upon realizable value less allowance for selling and distribution expenses. The Company analyzes its inventory levels and writes down inventory that has, or is expected to, become obsolete.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(1) Summary of significant accounting policies (continued)

Depreciation of property and equipment - The straight-line method of depreciation is used for computing depreciation on property and equipment. Depreciation is based on estimated useful lives as follows: machines and equipment, 3 years; office and computer equipment, 3 years; furniture and fixtures, 3 years; vehicles, 3 years; and software, 2 years.

Intangible assets - Intangible assets subject to amortization consist of patents which are recorded at cost. Patents are amortized on a straight-line basis over the average life of 11.4 years. The Company regularly reviews intangible assets to determine if facts and circumstances indicate that the useful life is shorter than the Company originally estimated or that the carrying amount of the assets may not be recoverable. Factors the Company considers important and could trigger an impairment review include the following:

Significant delays or obstacles encountered in the dermaPACE device clinical trial and PMA application;
Significant changes in the manner in which the Company uses its assets or significant changes in the Company's overall business strategy; and
Significant underperformance of the Company's assets relative to future operating results.

If such facts and circumstances exist, the Company assesses the recoverability of the intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the intangible asset exceeds its fair value.

Fair value of financial instruments - The book values of accounts receivable, accounts payable, and other financial instruments approximate their fair values, principally because of the short-term maturities of these instruments.

The Company has adopted ASC 820-10, *Fair Value Measurements* (formerly SFAS No. 157), which defines fair value, establishes a framework for measuring fair value hierarchy for assets and liabilities measured at fair value, and requires expanded disclosures about fair value measurements.

The ASC 820-10 hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Unobservable inputs that are not corroborated by market data, therefore requiring the Company to develop its own assumptions.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(1) Summary of significant accounting policies (continued)

The Company's notes payable, related parties consist of \$5,372,743 of principal at December 31, 2013 and 2012. Interest accrues on the notes at a rate of six percent (6%) per annum. The fair value was determined using estimated future cash flows discounted at current rates, which is a Level 3 measurement. The estimated fair value of the Company's notes payable, related parties was \$4,653,780 and \$4,545,620 at December 31, 2013 and 2012, respectively.

Impairment of long-lived assets – The Company reviews long-lived assets for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. An impairment loss is recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the asset's carrying value is not recoverable, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value. The Company determines fair value by using a combination of comparable market values and discounted cash flows, as appropriate.

Revenue recognition - Sales of medical devices, including related applicators and applicator kits, are recognized when shipped to the customer. Shipments under agreements with distributors are invoiced at a fixed price, are not subject to return, and payment for these shipments is not contingent on sales by the distributor. The Company recognizes revenue on shipments to distributors in the same manner as with other customers. Fees from services performed are recognized when the service is performed.

Shipping and handling costs - Shipping charges billed to customers are included in revenue. Shipping and handling costs have been recorded in cost of revenue.

Income taxes - Income taxes are accounted for utilizing the asset and liability method prescribed by the provisions of ASC 740, *Income Taxes* (formerly SFAS No. 109, Accounting for Income Taxes). Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided for the deferred tax assets, including loss carryforwards, when it is more likely than

not that some portion or all of a deferred tax asset will not be realized.

A provision of ASC 740, *Income Taxes* (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48)) specifies the way public companies are to account for uncertainties in income tax reporting, and prescribes a methodology for recognizing, reversing, and measuring the tax benefits of a tax position taken, or expected to be taken, in a tax return. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions would "more-likely-than-not" be sustained if challenged by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year.

The Company will recognize in income tax expense interest and penalties related to income tax matters. For the years ended December 31, 2013 and 2012, the Company did not have any amounts recorded for interest and penalties.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(1) Summary of significant accounting policies (continued)

Loss per share - The Company calculates net income (loss) per share in accordance with ASC 260, *Earnings Per Share* (formerly SFAS No. 128, *Earnings Per Share*). Under the provisions of ASC 260, basic net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders for the period by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock and dilutive common stock equivalents then outstanding. To the extent that securities are “anti-dilutive,” they are excluded from the calculation of diluted net income (loss) per share. As a result of the net loss for the years ended December 31, 2013 and 2012, respectively, all potentially dilutive shares were anti-dilutive and therefore excluded from the computation of diluted net loss per share. The anti-dilutive equity securities totaled 18,991,971 shares and 15,162,069 shares at December 31, 2013 and 2012, respectively.

Comprehensive income – ASC 220, *Comprehensive Income* (formerly SFAS No. 130, *Reporting Comprehensive Income*) establishes standards for reporting comprehensive income (loss) and its components in a financial statement. Comprehensive income (loss) as defined includes all changes in equity (net assets) during a period from non-owner sources. The only source of other comprehensive income (loss) for the Company, which is excluded from net income (loss), is foreign currency translation adjustments.

Stock-based compensation - The Company uses the fair value method of accounting prescribed by ASC 718, *Compensation – Stock Compensation* (formerly SFAS No. 123(R), *Accounting for Stock-Based Compensation*) for its employee stock option program. Under ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable vesting period of the stock award (generally up to three years).

Research and development - Research and development costs are expensed as incurred. Research and development costs include payments to third parties that specifically relate to the Company’s products in clinical development, such as payments to contract research organizations, clinical investigators, clinical monitors, clinical related consultants and insurance premiums for clinical studies. In addition, employee costs (salaries, payroll taxes, benefits and travel) for employees of the regulatory affairs, clinical affairs, quality assurance, quality control, and research and development departments are classified as research and development costs.

Recent pronouncements – There have been no recently issued accounting standards that are expected to have a material impact on our consolidated financial statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(2) Inventory

Inventory consists of the following at December 31, 2013 and 2012:

	2013	2012
Inventory - finished goods	\$254,864	\$306,706
Inventory - parts	73,142	83,509
Gross inventory	328,006	390,215
Provision for losses and obsolescence	(82,000)	(97,550)
Net inventory	\$246,006	\$292,665

(3) Property and equipment

Property and equipment consists of the following at December 31, 2013 and 2012:

	2013	2012
Machines and equipment	\$233,793	\$233,793
Office and computer equipment	171,404	179,349
Software	41,872	41,872
Furniture and fixtures	22,447	25,679
Vehicles	-	22,531
Other assets	2,446	2,446
Total	471,962	505,670
Accumulated depreciation	(458,695)	(472,828)
Net property and equipment	\$13,267	\$32,842

Depreciation expense was \$19,575 and \$20,375 for the years ended December 31, 2013 and 2012, respectively. The depreciation policies followed by the Company are described in Note (1).

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(4) Intangible assets

Intangible assets consist of the following at December 31, 2013 and 2012:

	2013	2012
Patents, at cost	\$3,502,135	\$3,502,135
Less accumulated amortization	(2,581,866)	(2,275,110)
Net intangible assets	\$920,269	\$1,227,025

Amortization expense was \$306,756 and \$306,757 for the years ended December 31, 2013 and 2012, respectively. The amortization policies followed by the Company are described in Note (1).

Amortization expense for the future years is summarized as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2014	\$ 306,756
2015	306,756
2016	306,757
Total	\$ 920,269

The weighted average amortization period for intangible assets is as follows:

Amount	Weighted Average Period (Years)
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Patents \$3,502,135 11.4

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Years Ended December 31, 2013 and 2012****(5) Accrued expenses**

Accrued expenses consist of the following at December 31, 2013 and 2012:

	2013	2012
Accrued executive severance	\$400,000	\$542,269
Accrued clinical study expenses	188,927	-
Accrued audit and tax preparation	91,000	102,600
Accrued consultants	58,000	-
Accrued board of director's fees	37,333	-
Accrued legal professional fees	29,500	23,519
Accrued other	58,812	53,528
	\$863,572	\$721,916

On November 6, 2012, the Company entered into a Severance and Advisory Agreement (the "Severance Agreement") with Christopher M. Cashman in connection with his resignation as President and Chief Executive Officer, and a director of the Company. Pursuant to the Severance Agreement, Mr. Cashman will receive, as severance along with other non-cash items, six months of his base salary payable over the following six month period and bonus payments of \$100,000 upon each of four bonus payment events tied to the Company's clinical trial plan for the dermaPACE device, or December 31, 2016, whichever occurs first. The accrued executive severance at December 31, 2013 represents the unpaid portion of the bonus payments and the balance at December 31, 2012 represents the unpaid portion of the base salary and bonus payments.

(6) Convertible promissory note

On December 23, 2013, the Company entered into a financing transaction for the sale of an 8% Convertible Promissory Note (the "\$128,500 Convertible Note") in the principal amount of \$128,500, with gross proceeds of \$125,000 to the Company after payment of related professional expenses. The offering was conducted pursuant to the exemption from registration provided by Section 4(a)(2) of the Act and Rule 506 of Regulation D thereunder. The

\$128,500 Convertible Note was offered and sold to one accredited investor only.

The \$128,500 Convertible Note was issued pursuant to the terms of a purchase agreement among the Company and the accredited investor. The convertible note is an unsecured obligation of the Company and, unless earlier redeemed, matures on September 26, 2014. The convertible note bears interest accruing at the rate of 8% per annum. The Company has the right to prepay the convertible note and accrued interest during the first one hundred eighty (180) days following the date of issuance. During that time, the amount of any prepayment during the first sixty (60) days is 120% of the outstanding amounts owed, and the amount of the prepayment increases every subsequent thirty (30) days.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(6) Convertible promissory note (continued)

The \$128,500 Convertible Note is convertible, after the first one hundred eighty (180) days, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of 61% of the lowest three reported sale prices of the Company's common stock for the 10 trading days immediately prior to the conversion date. The convertible note includes full ratchet anti-dilution protection for any lower priced issuances of common stock or securities convertible or exchangeable into Company common stock.

Subsequent to year end, the Company repaid the \$128,500 Convertible Note in full, with accrued interest and the prepayment penalty, in March 2014 for \$158,055.

(7) Promissory notes

The Company issued short-term, unsecured promissory notes, in the aggregate principal amount of \$360,000, between May 14, 2013 and July 9, 2013, to certain existing shareholders. The promissory notes accrue interest at a rate of 18% per annum and, together with all accrued and unpaid interest, are due and payable 179 days from their individual issuance date. In the event that the promissory notes are not paid in full within three business days of their respective maturity dates, then, from and after such maturity date and until payment in full, interest will accrue on the outstanding principal balance at a rate of 25% per annum. Joseph Chiarelli, the Company's Chief Executive Officer, purchased promissory notes in the offering in the principal amount of \$35,000. David N. Nemelka, the brother of John F. Nemelka, who is a member of the Company's board of directors, purchased promissory notes in the offering in the principal amount of \$100,000. On August 1, 2013, at the request of the promissory note holders, the Company repaid \$325,000 of the original principal value of the notes in full, along with accrued interest of \$10,664. At December 31, 2013, there was one promissory note outstanding in the original principal balance of \$35,000 payable to Joseph Chiarelli.

On December 11, 2013, the Company issued a promissory note in the principal amount of \$50,000 to Dassity, Inc. The promissory note accrues interest at a rate of 8% per annum and, together with all accrued and unpaid interest, are due and payable 179 days from the issuance date. In the event that the promissory note is not paid in full within three business days of its respective maturity date, then, from and after such maturity date and until payment in full, interest

will accrue on the outstanding principal balance at a rate of 16% per annum.

(8) Senior secured notes

During the period from November 2012 through March 8, 2013, the Company entered subscriptions payable for 18% senior secured convertible promissory notes (the “Senior Secured Notes”) from select accredited investors. The Company completed the offering and issued an aggregate \$2,000,000 in Senior Secured Notes on March 8, 2013.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(8) Senior secured notes (continued)

The Senior Secured Notes had a six month term from the subscription date and the note holders could convert into Company common stock at anytime during the term at a conversion price of \$0.20 per share – the market price at the time the subscription agreement was written. Upon the consummation of a qualified financing and/or technology license, as defined in the Senior Secured Note agreements, as amended, of \$4,000,000 or more by the Company, the principal and interest on the Senior Secured Notes would automatically convert into Company common stock equal to the lower of (i) the Company common stock issued in the qualified financing and/or technology license, reduced by a discount of 20%, and (ii) \$0.20 per share - the market price at the time the subscription agreement was written. The note holders (the “Holders”) would also receive, if any are issued, warrants or any other securities issued in a qualified financing and/or technology license on similar terms to the qualified financing and/or technology license. The Senior Secured Notes were secured by the tangible and intangible assets of the Company.

On July 31, 2013, all of the Holders of the Senior Secured Notes voluntarily converted all of the outstanding principal and interest of the Senior Secured Notes into Company common stock. The aggregate outstanding amount of principal and interest on the Senior Secured Notes at July 31, 2013 of \$2,186,906 was converted into 10,934,533 shares of restricted Company common stock at the conversion price of \$0.20 per share - the market price at the time the subscription agreement was written - pursuant to the Senior Secured Note agreements. In return for the Holders’ voluntarily converting the outstanding Senior Secured Notes on or before July 31, 2013, the Company agreed to issue to the Holders warrants to purchase an aggregate total of 1,988,095 shares of Company common stock (the “Class H Warrants”). The Class H Warrants have an exercise price of \$0.80 per share and are exercisable during the five-year period beginning on the date of issuance. In July 2013, the Company recorded a loss from extinguishment of debt of \$1,073,572, which was the estimated fair value of the warrants issued to the Holders on the date of exchange calculated using the Black-Scholes pricing model using the following primary inputs of: (i) \$0.60 closing stock price on the date of grant, (ii) the expected time the warrants will be outstanding of five-years, (iii) estimated discount rate of 1.38%, and (iv) expected volatility of 149% based on historical data from companies similar in size and value to the Company.

Kevin A. Richardson, II, chairman of the board of directors of the Company, converted an aggregate balance of \$64,500 of the Senior Secured Notes and received 322,500 shares of Company common stock and 58,635 Class H Warrants in the foregoing transaction.

The conversion feature embedded in the Senior Secured Notes was accounted for as a derivative liability and resulted in the creation at issuance of a discount to the carrying amount of the debt in the amount of \$2,000,000, which was amortized as additional interest expense using the straight-line method over the term of the Senior Secured Notes (the Company determined that using the straight-line method of amortization did not yield a materially different amortization schedule than the effective interest method). The amount of the fair value of the embedded conversion feature in the Senior Secured Notes of \$4,908,000, at the date of issuance, less the debt discount, totaled \$2,908,000 and was recorded in the “loss on embedded conversion feature of Senior Secured Notes” in the accompanying consolidated statements of comprehensive loss; subsequent fair value adjustments of the embedded conversion feature of \$534,187 are also included in this financial statement caption.

Interest expense on the Senior Secured Notes, including amortization of the debt discount, totaled \$2,178,390 and \$8,516 for the years ended December 31, 2013 and 2012, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(9) Discontinued operations

As of December 31, 2013 and 2012, the Company's liabilities related to discontinued operations were as follows:

	2013	2012
Accrued expenses	\$ -	\$(655,061)
Liabilities of discontinued operations	\$ -	\$(655,061)

In October 2008, the Company discontinued its Ossatron mobile service business and sold certain assets at that time to a minority shareholder of the Company. The Company estimated all potential liabilities related to the business at that time which totaled \$655,061 and recorded them as liabilities related to discontinued operations on the consolidated balance sheet. The Company has continued to review the adequacy of the liability reserves in each fiscal year. As there has not been any activity or known potential claim related to these liabilities in the last five years, management has determined in accordance with Company policy, the liabilities should be eliminated in 2013. The Company recorded a non-cash gain on discontinued operations liabilities adjustment of \$655,061 for the year ended December 31, 2013.

(10) Notes payable, related parties

The notes payable, related parties consist of the following at December 31, 2013 and 2012:

	2013	2012
Notes payable, unsecured, payable to Healthtronics, Inc., a shareholder of the Company	\$5,372,743	\$5,372,743
Less current portion	-	-
Non-current portion	\$5,372,743	\$5,372,743

The notes payable, related parties were issued in conjunction with the Company's purchase of the orthopedic division of HealthTronics, Inc. on August 1, 2005. The notes payable, related parties bear interest at 6% per annum. Quarterly interest through June 30, 2010, was accrued and added to the principal balance. Interest is paid quarterly in arrears beginning September 30, 2010. All remaining unpaid accrued interest and principal is due August 1, 2015. Accrued interest currently payable totaled \$163,729 and \$81,864 at December 31, 2013 and 2012, respectively. Accrued interest not payable until August 1, 2015 totaled \$1,372,743 at December 31, 2013 and 2012, and is included in the balance above.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(10) Notes payable, related parties (continued)

Maturities on notes payable, related parties are as follows:

Years ending December 31, Amount

2014	\$-
2015	5,372,743
Total	\$5,372,743

Interest expense on notes payable, related parties totaled \$324,768 for each of the years ended December 31, 2013 and 2012.

(11) Income taxes

The Company files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to United States federal and state and non-United States income tax examinations by tax authorities for years before 2007.

Deferred income taxes are provided for temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred taxes are classified as current or noncurrent based on the financial statement classification of the related asset or liability giving rise to the temporary difference. For those deferred tax assets or liabilities (such as the tax effect of the net operating loss carryforwards) which do not relate to a financial statement asset or liability, the classification is based on the expected reversal date of the temporary difference.

The income tax provision (benefit) for continuing operations consists of the following at December 31, 2013 and 2012:

	2013	2012
Current:		
Federal	\$-	\$-
State	-	-
Foreign	-	-
	-	-
Deferred:		
Federal	(2,116,355)	(2,126,006)
State	(232,525)	(227,883)
Foreign	9,144	12,556
Change in valuation allowance	2,339,736	2,341,333
	\$-	\$-

SANUWAVE HEALTH, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Years Ended December 31, 2013 and 2012****(11) Income taxes (continued)**

The income tax provision (benefit) amounts differ from the amounts computed by applying the United States federal statutory income tax rate of 35% to pretax income (loss) as a result of the following for the years ended December 31, 2013 and 2012:

	2013	2012
Tax expense (benefit) at statutory rate	\$(4,184,174)	\$(2,176,508)
Increase (reduction) in income taxes resulting from:		
State income taxes (benefit), net of federal benefit	(297,680)	(159,432)
Non-deductible expenses on extinguishment of Senior Secured Notes	1,912,763	-
Income from foreign subsidiaries	22,746	165,660
Change in valuation allowance - United States	2,348,881	2,301,986
Other	197,464	(131,706)
Income tax expense (benefit)	\$-	\$-

The tax effects of temporary differences that give rise to the deferred tax assets at December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	\$22,376,888	\$20,147,348
Net operating loss carryforwards - foreign	139,529	148,674
Excess of tax basis over book value of property and equipment	30,441	42,946
Excess of tax basis over book value of intangible assets	435,541	431,513
Stock-based compensation	3,396,235	3,097,308
Accrued employee compensation	186,791	352,032
Capitalized equity costs	75,471	75,471
Inventory reserve	30,943	36,811
	26,671,839	24,332,103
Valuation allowance	(26,671,839)	(24,332,103)

Net deferred tax assets	\$-	\$-
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The Company's ability to use its net operating loss carryforwards could be limited and subject to annual limitations. In connection with future offerings, the Company may realize a "more than 50% change in ownership" which could further limit its ability to use its net operating loss carryforwards accumulated to date to reduce future taxable income and tax liabilities. Additionally, because United States tax laws limit the time during which net operating loss carryforwards may be applied against future taxable income and tax liabilities, the Company may not be able to take advantage of all or portions of its net operating loss carryforwards for federal income tax purposes.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(11) Income taxes (continued)

The federal net operating loss carryforwards at December 31, 2013 will expire as follows:

Years ending December 31, Amount

2025	\$1,376,740
2026	7,291,084
2027	12,280,771
2028	6,922,963
2029	4,816,700
2030	7,667,557
2031	8,816,976
2032	4,768,716
2033	5,357,637
Total	\$59,299,144

(12) Equity Transactions

2013 Public Offering

On July 25, 2013, the Company consummated a public offering (the “Public Offering”) of an aggregate of 3,006,818 units, with each unit consisting of one share of common stock and a warrant to purchase one-half share of a common stock (the “Class G Warrants”), resulting in warrants to purchase up to 1,503,409 shares of common stock. The price per unit was \$0.55 resulting in gross proceeds of \$1,653,750. The Company received net proceeds, after payment of the placement agent’s fees, of \$1,517,450. The units separated immediately and the common stock and warrants were issued separately. The Class G Warrants have an exercise price of \$0.80 per share and are exercisable during the five-year period beginning on the date of issuance.

2013 Private Placements

In September, October and December 2013, the Company, in conjunction with offerings of securities (the “Private Placements”) of the Company, pursuant to an exemption from registration under the Act, issued 1,043,646 units (as described below) to certain “accredited investors,” as that term is defined in SEC Rule 501 under the Act, for an aggregate total purchase price of \$626,188. Each unit was sold to the accredited investors at a purchase price of \$0.60 per unit. Each “unit” in the Private Placements consists of; (i) one share of common stock and (ii) a five-year warrant to purchase one share of common stock, at an exercise price of \$0.85 (the “Class I Warrants”). The Class I Warrants are callable by the Company if the average share price of common stock of the Company is at or above \$1.40 for a twenty day period.

Kevin A. Richardson II, who is the chairman of the board of directors of the Company, and Joseph Chiarelli, who is the Chief Executive Officer of the Company, and Michael M. Nemelka, who is the brother of John F. Nemelka, a member of the board of directors of the Company, purchased units in the Private Placements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(12) Equity Transactions (continued)

Consulting Agreements

In February 2013, the Company entered into certain consulting agreements for which a portion of the fee for the services performed was paid with Company common stock. In August and September 2013, the Company entered into two additional consulting agreements for which a portion of the fee for the services performed was paid with Company common stock. The Company issued 1,583,315 shares of common stock under these agreements for the year ended December 31, 2013. The fair value of the common stock of \$1,014,267, based upon the closing market price of the Company's common stock at the dates the common stock was issued, was recorded as a non-cash general and administrative expense for the year ended December 31, 2013.

Preferred Stock

The Company's preferred stock may have such rights, preferences and designations and may be issued in such series as determined by the board of directors. No shares were issued and outstanding at December 31, 2013 and 2012.

(13) Warrants

A summary of warrants as of December 31, 2013 and 2012, and the changes during the years ended December 31, 2013 and 2012, is presented as follows:

	Class A Warrants	Class B Warrants	Class D Warrants	Class E Warrants	Class F Warrants	Class G Warrants	Class H Warrants	Class I Warrants
Outstanding as of	1,106,627	1,106,627	4,235,160	3,576,737	-	-	-	-

December 31, 2011								
Issued	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	(2,284,993)	-	-	-	-	-
Outstanding as of December 31, 2012	1,106,627	1,106,627	1,950,167	3,576,737	-	-	-	-
Issued	-	-	-	-	2,000,000	1,503,409	1,988,095	1,043,646
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	(1,950,167)	-	(1,700,000)	-	-	-
Outstanding as of December 31, 2013	1,106,627	1,106,627	-	3,576,737	300,000	1,503,409	1,988,095	1,043,646

A summary of the warrant exercise price per share and expiration date is presented as follows:

	Class A Warrants	Class B Warrants	Class D Warrants	Class E Warrants	Class F Warrants	Class G Warrants	Class H Warrants	Class I Warrants
Exercise price/share	\$ 4.00	\$ 8.00	\$ 2.00	\$ 4.00	\$ 0.35	\$ 0.80	\$ 0.80	\$ 0.85
Expiration Date	September 2014	September 2014	January 2013	April 2016	February 2018	July 2018	July 2018	Sept - Dec 2018

The exercise price and the number of shares covered by the warrants will be adjusted if the Company has a stock split, if there is a recapitalization of the Company's common stock, or if the Company consolidates with or merges into another company.

In February 2013, the Company issued 2,000,000 warrants to a consultant to purchase the Company's common stock at \$0.35 per share (the "Class F Warrants"). The five year Class F Warrants vest 300,000 on the date of grant and 1,700,000 upon the completion of a \$5,000,000, or greater, capital raise on or prior to June 8, 2013. A capital raise was not completed for the requisite amount and the 1,700,000 Class F Warrants expired by their terms. The Company recorded the underlying cost of the 300,000 Class F Warrants as a cost of the Public Offering.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(14) Commitments and contingencies

Subscription agreement

On November 27, 2012, the Company and David N. Nemelka (the “Subscriber”), the brother of John F. Nemelka, a member of the Company’s board of directors, entered into a subscription agreement (the “Subscription Agreement”) whereby the Subscriber has agreed to purchase from the Company, and the Company has agreed to sell and issue, a total of 4,000,000 shares of the Company’s unregistered common stock at a purchase price equal to \$0.25 per share, for an aggregate sales price of \$1,000,000 (the “Purchase Price”). The shares are subject to piggy-back registration rights if the Company files a registration statement for an offering of securities.

The Purchase Price shall be payable to the Company as follows: (i) \$50,000 on or before January 31, 2013; (ii) \$50,000 on or before February 15, 2013; and (iii) the balance of \$900,000 on or before May 27, 2014 (the “Outside Due Date”). The Subscriber may make payments of the Purchase Price at his discretion in minimum installments of \$100,000 each, until the Outside Due Date.

In the event that at any time after February 15, 2013, the Company’s total available cash should be less than \$100,000, the Subscriber shall, upon demand of the Company, pay to the Company \$100,000 of the then outstanding balance of the Purchase Price, which payment shall be due within thirty (30) days of the demand. There is no limit on the number of demands that the Company may make pursuant to this provision of the Subscription Agreement, provided, however, that in no event shall the Company provide more than one notice of demand for payment in any thirty (30) day period.

As of December 31, 2013 and 2012, respectively, the Subscriber had paid the Company \$100,000 and \$25,000 and was issued 400,000 and 100,000 shares of unregistered common stock of the Company. The Company will record the additional \$900,000 and issue the corresponding 3,600,000 shares of common stock in the periods in which the Purchase Price is received.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(14) Commitments and contingencies (continued)

Operating Leases

The Company leases office and warehouse space. Rent expense for the years ended December 31, 2013 and 2012, was \$124,286 and \$298,452, respectively. Minimum future lease payments under non-cancellable operating leases consist of the following:

Year ending December 31,	Amount
2014	\$ 105,643
2015	90,225
Total	\$ 195,868

Capital Leases

The Company leases certain office equipment under an agreement classified as a capital lease. The leased assets serve as security for the lease. The accumulated depreciation of such equipment at December 31, 2013 and 2012 totaled \$11,318 and \$6,468, respectively. The net book value of such equipment at December 31, 2013 and 2012 totaled \$3,234 and \$8,085, respectively.

The future commitments as of December 31, 2013 under this capital lease agreement are as follows:

Year ending December 31,	Principal	Interest	Total
2014	\$ 3,951	\$ 125	\$4,076
	\$ 3,951	\$ 125	\$4,076

Litigation

The Company is involved in various legal matters that have arisen in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution will not have a material adverse effect on the financial position or results of operations of the Company.

(15) 401(k) plan

The Company sponsors a 401(k) plan that covers all employees who meet the eligibility requirements. The Company matched 50% of employee contributions up to 6% of their compensation effective until January 31, 2012. Effective February 1, 2012, the Company amended the 401(k) plan to make the Company matching contribution discretionary and discontinued the Company match. The Company contributed \$0 and \$9,664 to the plan for the years ended December 31, 2013 and 2012, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(16) Stock-based compensation

On November 1, 2010, the Company approved the Amended and Restated 2006 Stock Incentive Plan of SANUWAVE Health, Inc. effective as of January 1, 2010 (the "Stock Incentive Plan"). The Stock Incentive Plan permits grants of awards to selected employees, directors and advisors of the Company in the form of restricted stock or options to purchase shares of common stock. Options granted may include non-statutory options as well as qualified incentive stock options. The Stock Incentive Plan is currently administered by the board of directors of the Company. The Stock Incentive Plan gives broad powers to the board of directors of the Company to administer and interpret the particular form and conditions of each option. The stock options granted under the Stock Incentive Plan are non-statutory options which generally vest over a period of up to three years and have a ten year term. The options are granted at an exercise price determined by the board of directors of the Company to be the fair market value of the common stock on the date of the grant. At December 31, 2012, the Stock Incentive Plan reserved 5,000,000 shares of common stock for grant. On February 21, 2013, the Stock Incentive Plan was amended to reserve a total of 8,500,000 shares of common stock for grant.

On September 3, 2013, the Company granted 100,000 options to the new member of the board of directors at an exercise price of \$0.65 per share. The options vested at the date of grant and have a ten year term. Using the Black-Scholes option pricing model, management has determined that the options had a weighted average fair value per share of \$0.60 resulting in total compensation of \$60,000. Compensation cost was recognized at grant date.

On February 21, 2013, the Company, by mutual agreement with all the active employees and directors of the Company, cancelled options granted to the active employees in the year ended December 31, 2011 and prior which totaled 1,113,644 shares of common stock at an average exercise price of \$2.92. In exchange for these options, the active employees and directors received new options to purchase 2,243,644 shares of common stock at an exercise price of \$0.35 per share. Using the Black-Scholes option pricing model, management has determined that the options at the grant date, net of the value of the cancelled options as of the date of cancellation, had an average fair value per share of \$0.223 resulting in total compensation of \$499,621. Compensation cost will be recognized over the requisite service period.

On February 21, 2013, the Company granted two members of the Company's Medical Advisory Board each options to purchase 50,000 shares of the Company's common stock at an exercise price of \$0.35 per share in place of an annual cash consulting fee for calendar year 2013. Using the Black-Scholes option pricing model, management has

determined that the options had a fair value per share of \$0.64 resulting in compensation expense of \$64,000. Compensation cost will be recognized over the calendar year 2013.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(16) Stock-based compensation (continued)

On February 25, 2013, Joseph Chiarelli joined the Company to serve as the Chief Executive Officer and a director of the Company. Mr. Chiarelli was granted options to purchase 2,250,000 shares of the Company's common stock at an exercise price of \$0.35 per share. The options vest and become exercisable in five installments as follows: (i) 375,000 vested at grant; (ii) 375,000 vest upon the Company completing a financing resulting in gross proceeds to the Company of no less than \$5,000,000 at a price per share of not less than \$0.35; (iii) 375,000 upon the execution by the Company of a license or distribution agreement from which the Company is entitled to receive gross proceeds of no less than \$1,000,000 and the Company has received payments of at least \$250,000; (iv) 375,000 vest upon receipt by the Company of FDA approval for the use of dermaPACE; and (v) 750,000 vest in the event the Company achieves the milestones (i), (ii), (iii) and (iv) above during the initial two year term and the agreement is not extended by the Company. Using the Black-Scholes option pricing model, management has determined that the options had an average fair value per share of \$0.207 resulting in total compensation of \$465,000. Compensation cost will be recognized over the requisite service period.

As discussed in Note (5), on November 6, 2012, the Company entered into a Severance Agreement with Christopher M. Cashman in connection with his resignation as President and Chief Executive Officer, and a director of the Company. Pursuant to the Severance Agreement, Mr. Cashman received (a) a grant of 1,000,000 options to acquire shares of common stock at an exercise price of \$0.21 per share with 600,000 of the options vested upon the execution of the Severance Agreement and the remaining 400,000 options vesting in increments of 100,000 upon events tied to the Company's clinical trial plan for the dermaPACE device, or December 31, 2016, whichever occurs first, (b) a grant of 50,000 options to acquire shares of common stock at an exercise price of \$0.21 per share as consideration for the provision of twelve months of advisory services and (c) the full vesting of all other outstanding and unvested options. Using the Black-Scholes option pricing model, management has determined that the options granted in November 2012 had a fair value per share of \$0.15 resulting in total compensation of \$160,500. Compensation cost will be recognized over the requisite vesting period.

On March 8, 2012, the Company granted two members of the Company's Medical Advisory Board each options to purchase 50,000 shares of the Company's common stock at an exercise price of \$0.44 per share in place of an annual cash consulting fee. Using the Black-Scholes option pricing model, management has determined that the options granted in March 2012 had a fair value per share of \$0.27 resulting in total compensation of \$27,250. Compensation cost was recognized over the calendar year 2012.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(16) Stock-based compensation (continued)

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions for the years ended December 31, 2013 and 2012:

	2013		2012	
Weighted average expected life in years	4.3		5.2	
Weighted average risk free interest rate	0.73	%	0.81	%
Weighted average volatility	149.85	%	97.83	%
Forfeiture rate	0.0	%	0.0	%
Expected dividend yield	0.0	%	0.0	%

The expected life of options granted represent the period of time that options granted are expected to be outstanding and are derived from the contractual terms of the options granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Since there is a limited trading history for our common stock, the expected volatility is based on historical data from companies similar in size and value to us. We estimate pre-vesting forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The expected dividend yield is based on our historical dividend experience, however, since our inception, we have not declared dividends. The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. Ultimately, the total expense recognized over the vesting period will equal the fair value of the awards that actually vest.

For the years ended December 31, 2013 and 2012, the Company recognized \$792,160 and \$1,391,316, respectively, as compensation cost related to options granted. The remaining compensation cost will be recognized as follows:

	Unrecognized
	Compensation
Years ending December 31,	Cost

2014	\$ 214,106
2015	35,151
Total	\$ 249,257

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Years Ended December 31, 2013 and 2012****(16) Stock-based compensation (continued)**

A summary of option activity as of December 31, 2013 and 2012, and the changes during the years ended December 31, 2013 and 2012, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding at December 31, 2011	4,365,546	\$ 2.82
Granted	1,150,000	\$ 0.23
Exercised	-	\$ -
Forfeited or expired	(286,216)	\$ 2.85
Outstanding at December 31, 2012	5,229,330	\$ 2.25
Granted	4,693,644	\$ 0.36
Exercised	(108,334)	\$ 0.35
Cancelled	(1,113,644)	\$ 2.92
Forfeited or expired	(334,166)	\$ 1.15
Outstanding at December 31, 2013	8,366,830	\$ 1.17
Vested and exercisable at December 31, 2013	5,112,738	\$ 1.69

The range of exercise prices for options was \$0.21 to \$2.92 for options outstanding at December 31, 2013, and \$0.44 to \$4.05 for option outstanding at December 31, 2012. The aggregate intrinsic value for exercised options was \$92,030 for the year ended December 31, 2013. The aggregate intrinsic value for outstanding options was \$1,271,540 and \$0 at December 31, 2013 and 2012, respectively. The aggregate intrinsic value for all vested and exercisable options was \$574,181 and \$0 at December 31, 2013 and 2012, respectively.

The weighted average remaining contractual term for outstanding exercisable stock options is 6.96 years as of December 31, 2013 and 6.63 years as of December 31, 2012.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Years Ended December 31, 2013 and 2012****(16) Stock-based compensation (continued)**

A summary of the Company's nonvested options as of December 31, 2013 and 2012, and changes during the years ended December 31, 2013 and 2012, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding at December 31, 2011	1,314,722	\$ 2.48
Granted	1,150,000	\$ 0.23
Vested	(1,901,722)	\$ 1.52
Forfeited or expired	(54,250)	\$ 3.41
Outstanding at December 31, 2012	508,750	\$ 0.66
Granted	4,693,644	\$ 0.36
Vested	(1,667,886)	\$ 0.39
Cancelled	(43,750)	\$ 2.87
Forfeited or expired	(236,666)	\$ 0.50
Outstanding at December 31, 2013	3,254,092	\$ 0.35

(17) Changes in other comprehensive loss

A summary of the amounts recognized in other comprehensive loss as of December 31, 2013 and 2012, and changes during the year ended December 31, 2013, is presented as follows:

	Currency Translations	Total
Balance, at December 31, 2012	\$ 13,116	\$13,116
Other comprehensive loss before reclassifications	(6,428)	(6,428)

Amounts reclassified from AOCI	-	-
Net change in other comprehensive loss	(6,428)	(6,428)
Balance, at December 31, 2013	\$ 6,688	\$6,688

(18) Segment and geographic information

The Company has one line of business with revenue being generated from sales in Europe, Asia and Asia/Pacific. All significant expenses are generated in the United States. All significant assets are located in the United States.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(19) Subsequent events

The Company has evaluated subsequent events through the date of issuance of the consolidated financial statements.

2014 Private Offering

On March 17, 2014, in conjunction with a private offering of securities (the “2014 Private Offering”) with institutional and select accredited investors, the Company issued an aggregate total of 6,210,000 shares of common stock and 6,175 shares of the preferred stock (the “Series A Convertible Preferred Stock”) for an aggregate total purchase price of \$9,280,000. Each share of Series A Convertible Preferred Stock is convertible into 2,000 shares of common stock at the option of the holder.

The Company, in connection with the 2014 Private Offering, issued to the investors an aggregate total of 23,200,000 warrants (the “Series A Warrants”) to purchase shares of common stock at an exercise price of \$0.50 per share. Each Series A Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire after five years.

In addition, the Company, in connection with the 2014 Private Offering, issued to the investors an aggregate total of 13,920,000 warrants (the “Series B Warrants”) to purchase shares of common stock at an exercise price of \$1.50 per share. Each Series B Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire after one year.

Pursuant to the terms of a Registration Rights Agreement that the Company entered with the investors in connection with the 2014 Private Offering, the Company is required to file a registration statement in April 2014 that covers the shares of common stock and the shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock and exercise of the Series A Warrants and Series B Warrants. The failure on the part of the Company to satisfy certain deadlines described in the Registration Rights Agreement may subject the Company to payment of certain monetary penalties.

Kevin A. Richardson, II, chairman of the board of directors of the Company; Joseph Chiarelli, Chief Executive Officer of the Company and a member of the Company's board of directors; and, Michael N. Nemelka, the brother of a member of the Company's board of directors and an existing shareholder of the Company, were purchasers in the 2014 Private Offering of \$50,000, \$40,000 and \$50,000, respectively.

18% Convertible Promissory Notes

During the period January 24, 2014 through March 7, 2014, the Company entered into subscriptions payable for 18% convertible promissory notes, as amended, (the "18% Convertible Promissory Notes") from selected accredited investors. Up to \$1,000,000 aggregate principal amount of 18% Convertible Promissory Notes were offered by the Company. The Company completed the offering and issued an aggregate \$815,000 in convertible notes in March 2014. Michael N. Nemelka, the brother of a member of the Company's board of directors and an existing shareholder of the Company, purchased \$110,000 of the convertible notes.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(19) Subsequent events (continued)

The 18% Convertible Promissory Notes have a nine (9) month term from the subscription date and the note holders can convert into Company common stock at anytime during the term at \$0.55 per share. Upon the consummation of a qualified financing, as defined in the convertible note agreements, of \$1,000,000 or more by the Company, the principal and interest on the 18% Convertible Promissory Notes will convert into Company common stock equal to the lower of (i) the Company common stock issued in the qualified financing, and (ii) \$0.55 per share. The note holders will also receive, if any are issued, warrants or any other security issued in a qualified financing on similar terms to the qualified financing. The 18% Convertible Promissory Notes are unsecured.

On March 17, 2014, in conjunction with the 2014 Private Offering, the 18% Convertible Promissory Notes were automatically converted under the same terms as the Offering. The 2014 Private Offering was a qualified financing as defined in the 18% Convertible Promissory Notes. The unpaid principal and interest balance, which in the aggregate totaled \$822,168, were converted into 1,644,337 shares of common stock. In addition, under the same terms as in the 2014 Private Offering, the Company issued to the note holders an aggregate total of 2,055,421 Series A Warrants and 1,233,252 Series B Warrants.

\$278,500 Convertible Promissory Note and Warrants

On February 10, 2014, the Company entered into a financing transaction for the sale of an 8% Convertible Promissory Note (the “\$278,500 Convertible Note”) and warrants (the “Class J Warrants”) in the principal amount of \$278,500, with gross proceeds of \$250,000 to the Company after payment of a 10% original issue discount and related professional expenses. The offering was conducted pursuant to the exemption from registration provided by Section 4(a)(2) of the Act and Rule 506 of Regulation D thereunder. The Company did not utilize any form of general solicitation or general advertising in connection with the offering. The \$278,500 Convertible Note was offered and sold to one accredited investor.

The \$278,500 Convertible Note and Class J Warrants were issued pursuant to the terms of a purchase agreement among the Company and the Investor. The convertible note is an unsecured obligation of the Company and, unless earlier redeemed, matures on August 11, 2014. The convertible note bears interest accruing at the rate of 8% per

annum and includes a 10%, or \$25,000, original issuance discount. The Company has the right to prepay the convertible note and accrued interest during the first one hundred eighty (180) days following the date of issuance. During that time, the amount of any prepayment during the first sixty (60) days is 120% of the outstanding amounts owed, and the amount of the prepayment increases every subsequent thirty (30) days.

The \$278,500 Convertible Note is convertible, after the first one hundred eighty (180) days, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of the lower of 75% of the lowest reported sale price of the Company's common stock for the 20 trading days immediately prior to (i) the closing date of the financing, or (ii) 75% of the lowest reported sale price for the twenty (20) days prior the conversion date of the convertible note. The convertible note includes full ratchet anti-dilution protection for any lower priced issuances of common stock or securities convertible or exchangeable into Company common stock.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(19) Subsequent events (continued)

The Class J Warrants entitle the investor to purchase, in the aggregate, 629,378 shares of the Company's common stock. The Warrants will not be exercisable until the six (6) month anniversary of the closing date (August 10, 2014) and will expire five (5) years from the closing date. The Class J Warrants are initially exercisable at an exercise price equal to \$0.4425, subject to certain adjustments. The Class J Warrants may be exercised for cash or on a cashless basis. The exercise price of the Warrants is subject to adjustment for stock splits, combinations or similar events, and, in this event, the number of shares issuable upon the exercise of the Warrant will also be adjusted so that the aggregate exercise price shall be the same immediately before and immediately after the adjustment. In addition, the exercise price is also subject to a "full ratchet" anti-dilution adjustment where if the Company issues or is deemed to have issued securities at a price lower than the then applicable exercise price.

Subsequent to year end, the Company repaid the \$278,500 Convertible Note in full, with accrued interest and the prepayment penalty, in March 2014.

\$78,500 Convertible Promissory Note

On February 18, 2014, the Company entered into a second tranche of financing with the investor for the \$128,500 Convertible Promissory Note for the sale of 8% Convertible Promissory Note (the "\$78,500 Convertible Note") under the same terms as the first tranche in the principal amount of \$78,500, with gross proceeds of \$75,000 to the Company after payment of related professional expenses. The offering was conducted pursuant to the exemption from registration provided by Section 4(a)(2) of the Act and Rule 506 of Regulation D thereunder.

The \$78,500 Convertible Note was issued pursuant to the terms of a purchase agreement among the Company and the accredited investor. The convertible note is an unsecured obligation of the Company and, unless earlier redeemed, matures on November 20, 2014. The convertible note bears interest accruing at the rate of 8% per annum. The Company has the right to prepay the convertible note and accrued interest during the first one hundred eighty (180) days following the date of issuance. During that time, the amount of any prepayment during the first sixty (60) days is 120% of the outstanding amounts owed, and the amount of the prepayment increases every subsequent thirty (30) days.

The \$78,500 Convertible Note is convertible, after the first one hundred eighty (180) days, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of 61% of the lowest three reported sale prices of the Company's common stock for the 10 trading days immediately prior to the conversion date. The convertible note includes full ratchet anti-dilution protection for any lower priced issuances of common stock or securities convertible or exchangeable into Company common stock.

Subsequent to year end, the Company repaid the \$78,500 Convertible Note in full, with accrued interest and the prepayment penalty, in March 2014.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

(19) Subsequent events (continued)

Consulting Agreements

In February 2014, the Company renewed one consulting contract and entered into three additional consulting agreements for which a portion of the fee for the services performed was paid with Company common stock. The Company issued 835,000 shares of common stock under these agreements in February and March, 2014. The fair value of the common stock of issued to the consultants, based upon the closing market price of the Company's common stock at the dates the common stock was issued, was recorded as a non-cash general and administrative expense for the three months ended March 31, 2014.

ITEM 15. Recent Sales of Unregistered Securities

On March 17, 2014, the Company completed a private placement to ten institutional and individual accredited investors for the issuance of an aggregate total of 6,210,000 shares of Common Stock and 6,175 shares of Series A Convertible Preferred Stock for an aggregate total purchase price of \$9,280,000. Each share of Series A Convertible Preferred Stock is convertible into 2,000 shares of Common Stock at the option of the holder. The net proceeds received by the Company were \$8,562,500, net of offering costs of \$717,500.

As part of the private placement, the investors were issued an aggregate total of 23,200,000 Series A Warrants to purchase shares of Common Stock at an exercise price of \$0.50 per share. The warrants vested upon issuance and expire after five years. In addition, the investors were issued an aggregate total of 13,920,000 Series B Warrants to purchase shares of Common Stock at an exercise price of \$1.50 per share. The warrants vested upon issuance and expire after one year. For each of the warrants, the holder will be able to exercise the warrant on a cashless basis at any time following the one-year anniversary of the closing of the private placement, if a registration statement covering the shares of our Common Stock underlying such warrants is not effective.

The net proceeds from the private placement, following the payment of offering-related expenses, are being used by us for working capital and other general corporate purposes.

At the closing of the private placement, we paid Newport Coast Securities, Inc., the placement agent for the private placement, and Oppenheimer & Co. Inc., the former placement agent, cash compensation based on the gross proceeds of the private placement and 696,000 Series A Warrants and 417,600 Series B Warrants. The terms of these warrants are identical to the warrants issued to investors in the private placement.

The shares of Common Stock, Series A Convertible Preferred Stock and warrants issued in the private placement were exempt from registration under Section 4(2) of the Securities Act as a sale by an issuer not involving a public offering or under Regulation D promulgated pursuant to the Securities Act. None of the shares of Common Stock, Series A Convertible Preferred Stock or warrants, or shares of our Common Stock underlying such warrants or the conversion of our Series A Convertible Preferred Stock, were registered under the Securities Act, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempts transactions by an issuer not involving any public offering. Such securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements and certificates evidencing such shares contain a legend stating the same.

During the period January 24, 2014 through March 7, 2014, the Company entered into subscriptions payable for 18% convertible promissory notes, as amended, (the “18% Convertible Promissory Notes”) from selected accredited investors. Up to \$1,000,000 aggregate principal amount of 18% Convertible Promissory Notes were offered by the Company. The Company completed the offering and issued an aggregate \$815,000 in convertible notes in March 2014. Michael N. Nemelka, the brother of a member of the Company’s board of directors and an existing shareholder of the Company, purchased \$110,000 of the convertible notes. On March 17, 2014, in conjunction with the 2014 Private Placement, the 18% Convertible Promissory Notes were automatically converted under the same terms as the private placement. The 2014 Private Placement was a qualified financing as defined in the 18% Convertible Promissory Notes. The unpaid principal and interest balance, which in the aggregate totaled \$822,168, were converted into 1,644,337 shares of common stock. In addition, under the same terms as in the 2014 Private Offering, the Company issued to the note holders an aggregate total of 2,055,421 five-year warrants with a strike price of \$0.50 per share and 1,233,252 one-year warrants with a strike price of \$1.50 per share.

In September, October and December 2013, the Company, in conjunction with offerings of securities (as previously defined as the “Private Placements”) of the Company, pursuant to an exemption from registration under the Act, issued 1,043,646 units (as described below) to certain “accredited investors,” as that term is defined in SEC Rule 501 under the Act, for an aggregate total purchase price of \$626,188. Each unit was sold to the accredited investors at a purchase price of \$0.60 per unit. Each unit in the Private Placements consists of; (i) one share of common stock and (ii) a five-year warrant to purchase one share of common stock, at an exercise price of \$0.85. Kevin A. Richardson II, who is the chairman of the board of directors of the Company, and Joseph Chiarelli, who is the Chief Executive Officer of the Company, and Michael M. Nemelka, who is the brother of John F. Nemelka, a member of the board of directors of the Company, purchased units in the Private Placements.

On July 31, 2013, all of the holders (the “Holders”) of the Company’s 18% senior secured convertible promissory notes, as amended, (the “Senior Secured Notes”), in the original aggregate issuance amount of \$2,000,000, voluntarily converted all of the outstanding principal and interest of the Senior Secured Notes into Common Stock of the Company. The aggregate outstanding amount of principal and interest on the Senior Secured Notes at July 31, 2013 of \$2,186,906 was converted into 10,934,530 shares of restricted Common Stock at the conversion price of \$0.20 per share pursuant to the Senior Secured Note agreements. In return for the Holders’ voluntarily converting the outstanding Senior Secured Notes into Common Stock on or before July 31, 2013, the Company agreed to issue to the Holders warrants to purchase an aggregate total of 1,988,096 shares of Common Stock. The warrants have an exercise price of \$0.80 per share and are exercisable during the five-year period beginning on the date of issuance. Kevin A. Richardson, II, chairman of the board of directors of the Company, converted an aggregate balance of \$64,500 of the Senior Secured Notes and received 322,500 shares of Common Stock and 58,635 warrants in the foregoing transaction.

On November 27, 2012, we entered into a subscription agreement (Subscription Agreement) with David N. Nemelka (Subscriber), the brother of John F. Nemelka, a member of our board of directors, whereby the Subscriber agreed to purchase from us, and us agreed to sell and issue, a total of 4,000,000 shares of our common stock, at a purchase price equal to \$0.25 per share, for an aggregate sales price of \$1,000,000. These shares were sold pursuant to the exemption provided by the SEC’s Rule 506 of Regulation D under the Securities Act. As of December 31, 2012, the Subscriber had paid us \$25,000 and we issued to the Subscriber 100,000 shares of common stock. For the three months ended March 31, 2013, the Subscriber has paid us an additional \$75,000 and was issued an additional 300,000 shares of common stock. We will record the additional \$900,000 and issue the corresponding 3,600,000 shares of common stock in the periods in which the purchase price is received.

In connection with the foregoing, we relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, for transactions not involving a public offering.

On April 8, 2011, pursuant to the exemptive provision of Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder, we completed a private placement to 28 institutional and individual accredited investors of 2,804,593 shares of our common stock at a purchase price of \$3.25 per share, for gross proceeds to us of \$9,114,927. The net proceeds received by us were \$8,467,121, net of offering costs of \$647,806. As part of the private placement, the investors were issued five-year warrants to purchase up to 2,804,593 shares of our common stock at an initial exercise price of \$4.00 per share. The net proceeds from the private placement, following the payment of offering-related expenses, are being used by us for working capital and other general corporate purposes. David N. Nemelka, the brother of John F. Nemelka, a member of our board of directors, and an existing shareholder of ours, was one of the purchasers in the offering.

On April 4, 2011, the note holders of our amended senior notes cancelled the unpaid principal and interest balance of the amended senior notes which totaled \$4,413,908 in consideration for the issuance of 1,358,126 shares of our common stock. In addition, in connection with this transaction, we issued to the note holders an aggregate total of 679,064 warrants to purchase shares of common stock at an exercise price of \$4.00 per share. Each warrant represents

the right to purchase one share of common stock. The warrants vested upon issuance and expire after five years. The amended senior notes were held by Prides Capital Fund I, LP and NightWatch Capital Partners II, LP. Kevin A. Richardson, II, who is the chairman of our board of directors, serves as the managing partner of Prides Capital, LLC, an affiliate of Prides Capital Fund I, LP. John F. Nemelka, who is a member of our board of directors, serves as managing principal of NightWatch Capital Advisors, LLC, an affiliate of NightWatch Capital Partners II, LP.

In January 2011, pursuant to the exemptive provision of Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder, we issued 1,950,167 shares of common stock for gross proceeds of \$3,900,334 from a group of accredited investors upon the exercise of options we issued in 2010 as part of the sale of Units consisting of: (i) one share of common stock; (ii) a two-year common stock purchase warrant (Class D Warrant) to purchase one share of common stock, at an exercise price of \$2.00; and (iii) an option, which, as amended, expired on January 31, 2011, to purchase the same number of units as granted pursuant to this transaction, at the purchase price of \$2.00 per unit. Kevin A Richardson, II, the chairman of the our board of directors exercised 545,252 options and David N. Nemelka, the brother of John F. Nemelka, a member of our board of directors, exercised 686,252 options in connection with this transaction.

ITEM 16. Exhibits and Financial Statement Schedules

Exhibit No. Description

Agreement and Plan of Merger, dated as of September 25, 2009, by and between Rub Music Enterprises, Inc.,
2.1 RME Delaware Merger Sub, Inc. and SANUWAVE, Inc. (Incorporated by reference to Form 8-K filed with the SEC on September 30, 2009).

3.1 Articles of Incorporation (Incorporated by reference to the Form 10-SB filed with the SEC on December 18, 2007).

3.2 Certificate of Amendment to the Articles of Incorporation (Incorporated by reference to Appendix A to the Definitive Schedule 14C filed with the SEC on October 16, 2009).

3.3 Certificate of Amendment to the Articles of Incorporation (Incorporated by reference to Appendix A to the Definitive Schedule 14C filed with the SEC on April 16, 2012).

3.4 Bylaws (Incorporated by reference to the Form 10-SB filed with the SEC on December 18, 2007).

Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock of the
3.5 Company dated March 14, 2014 (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).

4.1 Form of Class A Warrant Agreement (Incorporated by reference to Form 8-K filed with the SEC on September 30, 2009).

4.2 Form of Class B Warrant Agreement (Incorporated by reference to Form 8-K filed with the SEC on September 30, 2009).

4.3 Form of Class D Warrant Agreement (Incorporated by reference to Form 8-K filed with the SEC on October 14, 2010).

4.4 Form of Class E Warrant Agreement (Incorporated by reference to Form 8-K filed with the SEC on April 7, 2011).

4.5 Form of Series A Warrant (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).

- 4.6 Form of Series B Warrant (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).
- 4.7 Form of 18% Senior Secured Convertible Promissory Note issued by SANUWAVE Health, Inc. to select accredited investors (Incorporated by reference to Form 8-K filed with the SEC on February 27, 2013).
- 4.8 Form of Convertible Promissory Note between the Company and accredited investors a party thereto (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).
- 4.9 Amendment No. 1 to the Convertible Note Agreement between the Company and accredited investors a party thereto (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).
- 5.1* Opinion of Smith, Gambrell & Russell, LLP.
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- Employment Agreement, dated April 10, 2006, by and between SANUWAVE, Inc. and Barry J. Jenkins.
- 10.1 (Management compensation plan or arrangement) (Incorporated by reference to Form 8-K filed with the SEC on September 30, 2009).
- 10.2 Amended and Restated 2006 Stock Option Incentive Plan of SANUWAVE Health, Inc. (Incorporated by reference to Form 8-K filed with the SEC on November 3, 2010).
- Severance and Advisory Agreement, dated November 6, 2012, by and between SANUWAVE Health, Inc. and Christopher M. Cashman. (Management compensation plan or arrangement) (Incorporated by reference to Form 8-K filed with the SEC on November 13, 2012).
- 10.3
- 10.4 Subscription Agreement, dated November 27, 2012, by and between SANUWAVE Health, Inc. and David N. Nemelka (Incorporated by reference to Form 8-K filed with the SEC on December 3, 2012).
- Employment Agreement, dated February 21, 2013, by and between SANUWAVE Health, Inc. and Joseph Chiarelli (Management compensation plan or arrangement) (Incorporated by reference to Form 8-K filed with the SEC on February 27, 2013).
- 10.5
- 10.6 Form of Subscription Booklet containing the Securities Purchase Agreement for the July 2013 public offering (Incorporated by reference to the S-1/A filed with the SEC on July 1, 2013).
- 10.7 Form of Subscription Agreement for the September 2013 private placement (Incorporated by reference to Form 8-K filed with the SEC on October 4, 2013).
- 10.8 Form of Securities Purchase Agreement, by and among the Company and the accredited investors a party thereto, dated March 17, 2014 (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).
- 10.9 Form of Registration Rights Agreement, by and among the Company and the holders a party thereto, dated March 17, 2014 (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).
- Form of Subscription Agreement for the 18% Convertible Promissory Notes between the Company and the accredited investors a party thereto (Incorporated by reference to the Form 8-K filed with the SEC on March 18, 2014).
- 10.10
- 21.1 List of Subsidiaries (Incorporated by reference to Annual Report on Form 10-K filed with the SEC on March 31, 2014).
- 23.1* Consent of Smith, Gambrell & Russell, LLP (included in its opinion filed as Exhibit 5.1 hereto).

23.2* Consent of BDO USA, LLP, independent registered public accountants.

24.1* Power of Attorney (set forth on the signature page of this registration statement).

* Filed herewith

ITEM 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) Intentionally omitted.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) Intentionally omitted.

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424.

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Alpharetta, State of Georgia, on April 14, 2014.

SANUWAVE HEALTH, INC.

By: */s/ Kevin A. Richardson, II*
Name: Kevin A. Richardson, II
Title: Co-Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Barry J. Jenkins as his true and lawful attorney-in-fact, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments (including post-effective amendments) to this registration statement and to sign a registration statement pursuant to Section 462(b) of the Securities Act of 1933, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signatures	Capacity	Date
By: _____	Co-Chief Executive Officer and Director	April 14, 2014

Name: Joseph Chiarelli

By: <u>/s/ Barry J. Jenkins</u>	Chief Financial Officer	April 14, 2014
Name: Barry J. Jenkins	(Principal Financial and Accounting Officer)	

By: <u>/s/ Kevin A. Richardson, II</u>	Director and Co-Chief Executive Officer	April 14, 2014
Name: Kevin A. Richardson, II	(Principal Executive Officer)	

By: <u>/s/ John F. Nemelka</u>	Director	April 14, 2014
Name: John F. Nemelka		

By: <u>/s/ Alan L. Rubino</u>	Director	April 14, 2014
Name: Alan L. Rubino		